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PAGE 01 STATE 163753
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TO ALL EAST ASIAN AND PACIFIC DIPLOMATIC POSTS

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SUBJECT: OFFICE OF ECONOMIC POLICY WEEKLY STATUS REPORT
JUNE 27, 1978

1. ASEAN

A. MORE ON ASEAN EXPECTATIONS FOR THE US-ASEAN TALKS (SECRET)

FURTHER REPORTING ON ASEAN EXPECTATIONS FOR THE US-ASEAN TALKS REFLECTS THE DIVERGENT VIEWS OF THE INDIVIDUAL ASEAN COUNTRIES. GOS SOURCES INDICATE THE GOS IS LOOKING FOR A GREATER USG COMMITMENT TO THE ASEAN REGION. A THAI SOURCE COMMENTED THAT REQUESTS ASEAN WILL MAKE OF THE US ARE STILL UNDER STUDY, BUT SUGGESTED THAT THAI FOREIGN MINISTRY OFFICIALS ARE LOOKING FOR SUPPORT FOR ASEAN INDUSTRIAL PROJECTS AND BELIEVE THAT THE US WILL AT LEAST MATCH THE

SECRET

PAGE 02 STATE 163753

JAPANESE OFFER OF 1 BILLION DOLLARS FOR THE FIVE ASEAN PROJECTS.

B. PREPARATIONS FOR TALKS (LIMITED OFFICIAL USE)

WITH THE DATES FOR THE MINISTERIAL FINALLY CONFIRMED, TONY GEBER CHAIRED AN INTERAGENCY MEETING JUNE 23 TO STEP

UP OUR PREPARATIONS. THE MEETING COVERED A REVISED AGENDA AND SCHEDULE WHICH SEEKS TO ACCOMMODATE ASEAN'S

DESIRE AS WE ARE AWARE OF THEM, THE PROPOSED COMPOSITION OF THE US DELEGATION AND ASSIGNMENTS FOR BRIEFING PAPERS. THE MODIFIED AGENDA AND SCHEDULE ARE BEING CABLES TO MANILA FOR ASEAN'S REACTIONS. THE INDIVIDUAL AGENCIES WERE URGED TO FIRM UP COMMITMENTS FOR PARTICIPATION BY THEIR RESPECTIVE PRINCIPALS AS SOON AS POSSIBLE.

C. ASEAN POSTPONES DEVELOPMENT COOPERATION MEETING UNTIL JULY 18-19 (LIMITED OFFICIAL USE)

DUE TO A CONFLICT WITH MALAYSIAN GENERAL ELECTIONS SLATED FOR JULY 8, ASEAN ASKED TO POSTPONE OUR DEVELOPMENT COOPERATION TALKS FROM JULY 7-8 TO JULY 18-19. WE ACCEPTED THE NEW DATES AND INDICATED TONY GEBER WILL ARRIVE A DAY EARLY TO CONFER WITH MRS. MANALO ON PREPARATIONS FOR THE MINISTERIAL. MIKE YAKI OF ICA IS ALSO DELAYING HIS TRIP TO DISCUSS ICA'S PROPOSAL FOR AN INFORMATION, EDUCATIONAL AND CULTURAL EXCHANGE PROGRAM AND WILL GO WITH TONY GEBER. THE BILATERAL CONSULTATIVE ENERGY TEAM VISITS TO MANILA, BANGKOK AND JAKARTA HAVE NOW BEEN DELAYED UNTIL SEPTEMBER. THE MEETING WITH ASEAN ENERGY EXPERTS WHICH WAS TO HAVE HELD IN CONJUNCTION WITH THE MANILA VISIT HAS BEEN SCRAPPED, BUT ASEAN HAS

SECRET

PAGE 03 STATE 163753

SPECIFICALLY ASKED THAT ENERGY COOPERATION REMAIN ON THE AGENDA FOR THE MINISTERIAL.

D. JAPAN-ASEAN RELATIONS (SECRET)

FURTHER REPORTING FROM TOKYO ON FOREIGN MINISTER SONODA'S MEETING WITH THE ASEAN FOREIGN MINISTERS IN PATTAYA JUNE 17 INDICATES THE GOJ IS VERY PLEASED WITH THE RESULTS OF THE MEETING. THE ACCOMPLISHMENTS AS CITED BY GOJ SOURCES WERE LARGE IN TERMS OF SUCH INTANGIBLES AS GREATER APPRECIATION OF THE REGIONAL AND GLOBAL CONTEXT FOR THE ASEAN-JAPAN DIALOGUE, IMPROVED UNDERSTANDING OF THE TIME REQUIRED TO ACHIEVE CONCRETE RESULTS IN ECONOMIC COOPERATION AND A BUTTRESSING OF JAPAN'S STATUS AS A SPOKESMAN FOR PRESENTING ASEAN'S CONCERN TO THE INDUSTRIAL DEMOCRACIES. CONCERNING SONODA'S COMMENTS ON A COMMON FUND AND STABEX, WHICH ROMULO DESCRIBED TO US AS PLEDGES OF SUPPORT, SONODA APPARENTLY AGREED TO TAKE THE LEAD IN SEEKING DC SUPPORT FOR A COMMON FUND, BUT GAVE NO INDICATION OF ANY CHANGE IN THE GOJ POSITION ON THE COMMON FUND ITSELF. ON STABEX, HE SAID THE GOJ WOULD BE QUITE WILLING TO SUPPORT SUCH A SYSTEM IF AND WHEN ITS FEASIBILITY IS PROVEN. GOJ SOURCES DESCRIBE SONODA'S ATTITUDE TOWARD STABEX AS

"MORE THAN NEUTRAL". REPORTING FROM OUR ASEAN POSTS CONTINUES TO INDICATE THAT ASEAN'S ASSESSMENT OF PROGRESS

IN THE JAPANESE-ASEAN DIALOGUE IS LESS FLATTERING, WITH THE ASEAN COUNTRIES STILL INCLINED TO BE UNHAPPY WITH THE LACK OF CONCRETE RESULTS. THERE WAS ALSO A REPORT FROM ANOTHER SOURCE THIS WEEK MAINTAINING THAT THE GOJ IS PESSIMISTIC ABOUT PROSPECTS FOR A MEANINGFUL ASEAN-JAPAN DIALOGUE BECAUSE THE INDIVIDUAL COUNTRIES CONTINUE TO PLACE NATIONAL CONSIDERATIONS BEFORE ASEAN GOALS.

SECRET

PAGE 04 STATE 163753

3. JAPAN TFC (LIMITED OFFICIAL USE)

RECENT COMMUNICATIONS WITH THE TOKYO EMBASSY AND JAPANESE OFFICIALS INDICATE THAT MOST MINISTRIES WITH THE EXCEPTION OF MITI DO NOT SEE THE TFC AS FORMALLY INVOLVING OR COMMITTING THEM TO SOLVING TRADE IMPEDIMENTS, AND MITI ITSELF APPEARS TO BE SOMEWHAT "BACKING OFF" THE TFC WHILE COUNSELING PATIENCE AND UNDERSTANDING ON THE PART OF THE US. WHILE THE CABINET-LEVEL UNDERSTANDS THE IMPORTANCE OF TFC AND ITS CRITICAL ROLE IN BILATERAL CONSULTATIONS THIS MESSAGE HAS EVIDENTLY NOT BEEN RECEIVED BY THE MIDDLE ECHELONS OF THESE MINISTRIES. WE ARE WORKING ON A PROPOSAL TO PROVIDE CONSISTENT, SENIOR, AND SYSTEMATIC SUPPORT FROM WASHINGTON TO REINFORCE THE EMBASSY'S EXCELLENT WORKING-LEVEL EFFORTS TO OBTAIN SUBSTANTIVE COOPERATION FROM THESE MINISTRIES.

4. JAPAN EDRC (LIMITED OFFICIAL USE)

A JAPANESE INTERAGENCY DELEGATION WAS SEVERELY QUESTIONED ON THEIR MACRO POLICY OUTLOOK AND POLICY IN PARIS ON JUNE 19 AT THE OECD ECONOMIC DEVELOPMENT AND REVIEW COMMITTEE. EXAMINING COUNTRIES OF THE JAPAN REVIEW PREPARED BY THE SECRETARIAT WERE THE UK AND CANADA. CONSIDERABLE SKEPTICISM WAS EXPRESSED ABOUT THE VIABILITY OF JAPAN'S OFFICIAL 7 PERCENT GNP GROWTH AND 6 BILLION DOLLAR CURRENT ACCOUNT TARGETS. THE JAPANESE DELEGATION "STONEWALLED" ALL QUESTIONS AND STUCK CLOSELY TO THE OFFICIAL FORECASTS. LITTLE MEANINGFUL DIALOGUE WAS ACHIEVED AND THE NET EFFECT OF THE MEETING WAS TO AMPLIFY DOUBTS REGARDING JAPAN'S MACRO ECONOMIC POLICIES ON THE PART OF ITS OECD PARTNERS.

SECRET

PAGE 05 STATE 163753

5. NATIONAL EXPORT POLICY TASK FORCE
(LIMITED OFFICIAL USE)

JULY 5 TARGET DATE FOR SUBMISSION OF NATIONAL EXPORT

POLICY MEMORANDUM TO THE PRESIDENT IS LIKELY TO SLIP

SEVERAL WEEKS MORE AS A RESULT OF UNRESOLVED ISSUES AND THE PRE-SUMMIT PRESS OF BUSINESS. THE PACKAGE OF RECOMMENDATIONS EMERGING IN THE DRAFT ACTION MEMORANDUM IS CONSIDERABLY MORE MODEST THAN THAT ENVISAGED WHEN THE TASK FORCE WAS FIRST PROPOSED, AND A NUMBER OF THE RECOMMENDATIONS ARE STILL BEING DEBATED. AMONG THE SIGNIFICANT RECOMMENDATIONS ARE A TAX INCENTIVE SCHEME TO REPLACE DISC (PRESIDENT HAS ALREADY MADE KNOWN HIS OPPOSITION), EXPANSION OF EXIM BANK FINANCING, AND A NEAR DOUBLING OF STATE AND COMMERCE RESOURCES DEVOTED TO DIRECT EXPORT MARKETING ASSISTANCE. IT IS NOW RECOMMENDED THAT THE TASK FORCE STAY IN BEING AFTER SUBMITTING ITS REPORT.

6. SENATE PASSES FOREIGN ASSISTANCE AUTHORIZATION
(UNCLASSIFIED)

ON JUNE 26, THE SENATE PASSED THE INTERNATIONAL DEVELOPMENT ASSISTANCE ACT BY A VOTE OF 49-30. THE FOLLOWING AMENDMENTS WERE ADOPTED DURING FLOOR CONSIDERATION OF THE BILL:

A) AN AMENDMENT OFFERED BY SENATOR BYRD (VA) CUTTING TOTAL FUNDS AUTHORIZED BY 5 PERCENT (93 MILLION DOLLARS). THIS PASSED BY A VOTE OF 57-22.

B) A HELMS AMENDMENT PROHIBITING AID TO SRV, CAMBODIA, UGANDA AND CUBA BY A VOTE OF 75-4. DURING FLOOR CONSIDERATION OF THE AMENDMENT, WHICH WAS ORIGINALLY THE ASHBROOKE AMENDMENT ADOPTED IN THE HOUSE, THE

SECRET

PAGE 06 STATE 163753

LANGUAGE "DIRECTLY AND INDIRECTLY" AND "TRADE" WERE DELETED FROM THE AMENDMENT.

C) ANOTHER HELMS AMENDMENT PROHIBITING AID TO ANY NATION WHICH "ALLOWS, PERMITS, SUPPORTS, ENCOURAGES OR HARBORS" ANY TERRORISTS GROUPS WITHIN ITS TERRITORIES AND "FAILS TO TAKE APPROPRIATE MEASURES TO PREVENT SUCH GROUPS FROM MAKING TERRORISTIC OR MILITARY INCURSIONS INTO TERRITORIES OUTSIDE ITS BORDERS" WAS ALSO ADOPTED.

D) SENATOR SPARKMAN, ON BEHALF OF SENATOR INOUYE, OFFERED AN AMENDMENT REQUIRING REPORTS TO THE FOUR CONCERNED COMMITTEES ON PENDING DEBT RELIEF AGREEMENTS.

E) SENATOR TALMADGE PROPOSED AN AMENDMENT, SUBSTANTIALLY THE SAME AS CURRENTLY IN THE HOUSE BILL, REQUIRING A REPORT OF THE EFFECTIVENESS OF PL-480 FOOD AID, AUTHORIZING PAYMENT OF TRANSPORTATION COSTS ON TITLE III

SHIPMENTS TO RLDCS AND PROVIDING FOR APPLICATION OF

FOOD FOR DEVELOPMENT PROCEEDS TO PRIOR PL-480 TITLE I
REPAYMENT OBLIGATIONS OF RLDCS.

F) A KENNEDY AMENDMENT PROVIDING UP TO 2 MILLION DOLLARS FROM EXISTING AID ACCOUNTS TO SUPPORT VOLUNTARY AND INTERNATIONAL AGENCIES PROGRAMS IN ASIA TO ASSIST DISADVANTAGE CHILDREN AND ORPHANS, "PARTICULARLY THOSE FATHERED BY US CITIZENS". SENATOR KENNEDY AGREED TO DROP FROM THE AMENDMENT THOSE SECTIONS PERTAINING TO THE IMMIGRATION AND NATIONALITY ACT.

G) A DECONCINE AMENDMENT PROHIBITING CONTRIBUTIONS TO THE UN UNIVERSITY. HOWEVER, THE AMENDMENT DID NOT

SECRET

PAGE 07 STATE 163753

EFFECT THE TOTAL FUNDING LEVEL.

H) AN AMENDMENT BY SENATOR HELMS REQUIRING AID TO TAKE INTO ACCOUNT THE IMPACT OF PROPOSED LOANS AND GRANTS ON US INDUSTRY AND EMPLOYMENT.

THE LEGISLATION NOW GOES BACK TO THE HOUSE AND A CONFERENCE COMMITTEE WILL BE NEEDED TO RESOLVE THE DIFFERENCES.

THE FOREIGN AID APPROPRIATIONS IN THE HOUSE HAS BEEN POSTPONED AGAIN, THIS TIME TO THE WEEK OF JULY 10, AT THE EARLIEST. THE DECISION TO PULL THE BILL WAS MADE BY THE HOUSE LEADERSHIP FOLLOWING A WHIP COUNT WHICH SHOWED THAT THERE WERE INSUFFICIENT VOTES TO PASS THE LEGISLATION. IN THE SENATE, THE INOUE SUBCOMMITTEE STILLS PLANS TO MARKUP ITS VERSION OF THE FOREIGN AID APPROPRIATION ONLY AFTER THE BILL PASSES THE HOUSE.

7. IFI LENDING TO THE SRV (CONFIDENTIAL)

IBRD OFFICIALS INFORM US THAT THE PROPOSED 60 MILLION DOLLAR SAIGON RIVER IRRIGATION LOAN WILL NOT INVOLVE ANY FORCIBLE RESETTLEMENT. SOME FAMILIES WILL BE RELOCATED, HOWEVER, BECAUSE OF FLOODING CAUSED BY A NEW DAM. IBRD OFFICIALS ARE PREPARED TO BRIEF US ON THEIR PLANS FOR THE SRV. THE NAC INSTRUCTED OUR ED TO VOTE AGAINST THE REACTIVATION OF THE SAIGON POWER PROJECT LOAN BUT TO MAKE NO STATEMENT. OUR ED WILL EXPLAIN TO THE DIRECTORS PRIVATELY THAT THIS VOTE IS IN ACCORDANCE WITH THE PRESIDENT'S PLEDGE. WE HAVE ALSO ASKED OUR ED TO ASK THE TOP MANAGEMENT FOR ITS VIEWS REGARDING ASSISTING SRV ACTIVITIES IN THE NEW ECONOMIC ZONES, PARTICULARLY FORCIBLE RESETTLEMENT. THE SRV HAS PROPOSED A NUMBER OF NEW LOANS TO THE ADB, INCLUDING SEVERAL AGRICULTURAL

LOANS THAT WOULD INVOLVE THESE ZONES.

SECRET

PAGE 08 STATE 163753

8. SUGAR (LIMITED OFFICIAL USE)

EB IS CONFIDENT OF SENATE RATIFICATION OF THE INTERNATIONAL SUGAR AGREEMENT (ISA) BEFORE THE END OF THE CURRENT SESSION (SEPTEMBER 30). THE IMPROVED PROSPECTS FOR RATIFICATION FOLLOW PRESIDENT CARTER'S JUNE 22 MEETING WITH SENATE LEADERS ON THE DOMESTIC SUGAR SUPPORT PROGRAM. WHILE HE REJECTED A HIGH DOMESTIC PRICE AS INCONSISTENT WITH THE ISA, THE PRESIDENT OFFERED TO TAKE A PERSONAL ROLE IN THE SEARCH FOR A COMPROMISE. THIS BROKE THE DEADLOCK AND NEGOTIATIONS BETWEEN THE SENATORS AND STATE AND AGRICULTURE HAVE BEGUN.

9. GRAINS (UNCLASSIFIED)

THE UNCTAD INTERIM COMMITTEE ON GRAIN NEGOTIATIONS MET IN LONDON JUNE 5-22. THE PURPOSE WAS TO DRAFT A NEW INTERNATIONAL WHEAT AGREEMENT CENTERING ON RESERVE STOCK OBLIGATIONS AND A POSSIBLE COARSE GRAINS CONSULTATIVE AGREEMENT. CONSIDERABLE PROGRESS WAS MADE IN THE DRAFTING OF LANGUAGE, BUT THERE WAS NO RESOLUTION TO THE QUESTION OF RESERVE STOCK SHARES AND ON THE LEVEL OF THE TRIGGER PRICE AT WHICH RESERVE DISPOSAL AND OTHER ACTION WOULD BE TAKEN. SINCE MTN RESULTS ARE CLOSELY LINKED TO THE GRAIN NEGOTIATIONS, FURTHER MEETINGS ARE SCHEDULED FOR JULY 7-12 IN GENEVA TO ATTEMPT TO REACH FINAL AGREEMENT ON THE SUBSTANTIVE ISSUES.

10. NORTH-SOUTH DIALOGUE (CONFIDENTIAL)

A GENERAL REAPPRAISAL OF THE US POSITION ON THE COMMON
SECRET

PAGE 09 STATE 163753

FUND AND OTHER NORTH SOUTH ISSUES IS NOW UNDERWAY IN EB. THE IMPETUS FOR THE REAPPRAISAL COMES FROM PRESIDENT CARTER'S TRIP TO PANAMA, WHERE HE MET WITH JAMAICAN PRESIDENT MANLEY AND LISTENED TO HIS VERSION OF G-77 DESIRES FOR A NEW INTERNATIONAL ECONOMIC ORDER. AS FOLLOW-UP UNDER SECRETARY COOPER HAS ALREADY SENT PAPERS TO THE JAMAICANS DESCRIBING OUR UNDERSTANDING OF OUR RESPECTIVE POSITIONS AND WHERE WE DIFFER. A REPORT TO THE PRESIDENT ON WHAT WE MIGHT BE ABLE TO DO TO NARROW DIFFERENCES IS DUE THE END OF THIS WEEK.

11. MTN (CONFIDENTIAL)

AMBASSADOR STRAUSS MET WITH HIS COUNTERPARTS FROM THE EEC, JAPAN AND CANADA ON JUNE 19 AND 20 IN WASHINGTON. THE MEETINGS WERE DESIGNED TO CLARIFY MTN ISSUES BEFORE

THE FINAL THREE WEEKS OF BARGAINING. EACH SIDE EXPLAINED ITS POSITION AND LISTED THE TOP PRIORITIES IT FELT IT NEEDED FOR A SETTLEMENT. THE JAPANESE DEMANDED THAT THE EEC ABOLISH ALL REMAINING DISCRIMINATORY QRS AS THE PRICE FOR JAPANESE AGREEMENT ON SELECTIVE SAFEGUARDS. WE UNDERSTAND THAT STRAUSS AND USHIBA AGREED TO NEGOTIATE PERSONALLY ON PRIORITY US REQUESTS FROM JAPAN, E.G. CITRUS, BEEF, COMPUTERS. THE JAPANESE WERE DISAPPOINTED THAT AN IMPROVED US OFFER WAS NOT AVAILABLE FOR DISCUSSION. ALL CONFIRMED THAT JULY 15 IS THE DEADLINE FOR THE MTN AND AGREED ON A STRINGENT TIMETABLE FOR DRAFTING AND DECISION-MAKING TO MEET THAT DATE. WHILE NEGOTIATIONS ARE PROCEEDING WITH KEY LDCS IN GENEVA WE AND EB ARE CONCERNED THAT THERE MAY NOT BE ENOUGH TIME AND MANPOWER AVAILABLE IN THE NEXT TWO WEEKS TO ADEQUATELY RESPOND TO LDCS SUCH AS KOREA WHO ARE PREPARED FOR SERIOUS NEGOTIATIONS.

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PAGE 10 STATE 163753

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